

SOUTH SHORE SCHOOL DISTRICT NO. 14-3

AUDIT REPORT

JUNE 30, 2008

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
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Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

School Board
South Shore School District No. 14-3
Codington County, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of South Shore School District No. 14-3, Codington County, South Dakota, as of and for each of the years in the biennial periods ended June 30, 2008 which collectively comprise South Shore School Districts basic final statements, and have issued my report thereon dated August 1, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered South Shore School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. I consider the deficiency described in the accompanying schedule of current audit findings to be a significant deficiency in internal control over financial reporting. This is numbered 2008-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

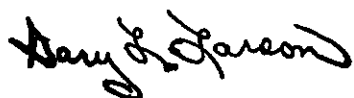
My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is a material weakness. See finding number 2008-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Shore School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The School District's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit the School District's response and, accordingly, I express no opinion on it.

This report is intended for the information and use of the South Dakota Legislature, the governing board and management of South Shore School District No. 14-3 and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Gary L. Larson". The signature is written in a cursive, flowing style.

August 1, 2008

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

INDEPENDENT AUDITOR'S REPORT

School Board
South Shore School District No. 14-3
Codington County, South Dakota

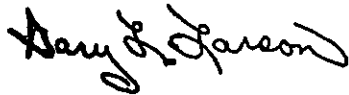
I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of South Shore School District No. 14-3, Codington County, South Dakota, as of and for each of the years in the biennial period ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of South Shore School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities and each major fund, and the aggregate remaining fund information of the South Shore School District No. 14-3 as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for each of the fiscal years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated August 1, 2008, on my consideration of South Shore School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and to the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The South Shore School District has not presented the Mnagement's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules for the General and Special Revenue Funds that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "Gary J. Larson". The signature is written in a cursive, flowing style.

August 1, 2008

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$512,650	\$0	\$512,650
Receivables	210,108	2,077	212,185
Internal balances	2,706	(2,706)	0
Inventories	0	1,520	1,520
Capital Assets:			
Land	2,046	0	2,046
Other capital assets, net of depreciation	590,110	10,003	600,113
TOTAL ASSETS	\$1,317,620	\$10,894	\$1,328,514
 LIABILITIES:			
Payables	\$84,814	\$2,234	\$87,048
Deferred revenue	206,453	0	206,453
TOTAL LIABILITIES	291,267	2,234	293,501
 NET ASSETS:			
Invested in capital assets	592,156	10,003	602,159
Restricted For:			0
Capital outlay	234,484	0	234,484
Unrestricted	199,713	(1,343)	198,370
TOTAL NET ASSETS	1,026,353	8,660	1,035,013
 TOTAL LIABILITIES AND NET ASSETS	\$1,317,620	\$10,894	\$1,328,514

The accompanying notes to financial statements are an integral part of this statement

**SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
Instruction	\$576,793	\$0	\$103,064
Support services	387,647	393	3,167
Cocurricular activities	61,191	6,939	0
Total Governmental Activities	1,025,631	7,332	106,231
Business-type Activities:			
Food service	55,260	23,526	15,392
TOTAL	\$1,080,891	\$30,858	\$121,623

GENERAL REVENUES:
Property taxes
Gross receipts tax
State aid
Unrestricted investment earnings
Other general revenues
TRANSFERS
Total general revenues
and transfers

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements
are an integral part of this statement

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$473,729)	\$0	(\$473,729)
(384,087)	0	(384,087)
(54,252)	0	(54,252)
(912,068)	0	(912,068)
0	(16,342)	(16,342)
(912,068)	(16,342)	(928,410)
392,376	0	392,376
26,859		
441,440	0	441,440
39,586	5	39,591
34,915	0	34,915
(14,000)	14,000	0
921,176	14,005	935,181
9,108	(2,337)	6,771
1,017,245	10,997	1,028,242
\$1,026,353	\$8,660	\$1,035,013

**SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
Instruction	\$651,997	\$0	\$191,929
Support services	350,361	12,532	12,500
Cocurricular activities	56,604	4,782	0
Total Governmental Activities	1,058,962	17,314	204,429
Business-type Activities:			
Food service	49,202	24,196	14,324
TOTAL	\$1,108,164	\$41,510	\$218,753

GENERAL REVENUES:

Property taxes
Gross receipts tax
State aid
Unrestricted investment earnings
Other general revenues

TRANSFERS

Total general revenues
and transfers

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements
are an integral part of this statement

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$460,068)	\$0	(\$460,068)
(325,329)	0	(325,329)
(51,822)	0	(51,822)
(837,219)	0	(837,219)
0	(10,682)	(10,682)
(837,219)	(10,682)	(847,901)
388,034	0	388,034
26,704		
460,108	0	460,108
11,170	4	11,174
13,528	0	13,528
(7,000)	7,000	0
892,544	7,004	899,548
55,325	(3,678)	51,647
961,920	14,675	976,595
\$1,017,245	\$10,997	\$1,028,242

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund
ASSETS:			
Cash and cash equivalents	\$266,230	\$234,220	\$12,200
Taxes receivable-current	125,233	53,007	29,544
Taxes receivable-delinquent	333	180	129
Due from other governments	1,682	0	0
Due from Food Service Fund	2,706	0	0
TOTAL ASSETS	\$396,184	\$287,407	\$41,873
LIABILITIES AND FUND BALANCE			
Liabilities:			
Contracts payable	\$62,708	\$0	\$11,362
Payroll deductions and withholding and employer matching payable	9,282	0	1,462
Deferred revenue	124,392	53,103	29,600
TOTAL LIABILITIES	196,382	53,103	42,424
Fund balances:			
Unreserved (deficit)	199,802	234,304	(551)
TOTAL FUND BALANCE	199,802	234,304	(551)
TOTAL LIABILITIES AND FUND BALANCE	\$396,184	\$287,407	\$41,873

The accompanying notes to financial statements are an integral part of this statement

Total
Governmental
Funds

\$512,650

207,784

642

1,682

2,706

\$725,464

\$74,070

10,744

207,095

291,909

433,555

433,555

\$725,464

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
JUNE 30, 2008

Total Fund Balances-Government Funds	\$433,555
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	592,156
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Tax revenue is recognized when it becomes due for the period for which it was levied in the statement of net assets, but is deferred in the funds until it is collected or is available for current expenditures	<u>642</u>
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Net Assets-Governmental Funds	<u><u>\$1,026,353</u></u>
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The accompanying notes to financial statements are an integral part of this statement

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$242,741	\$91,872	\$53,261
Prior year's ad valorem taxes	780	165	115
Gross receipts taxes	26,859	0	0
Penalties and interest	1,081	346	3,888
Earnings on deposits:			
Interest earned	39,586	0	0
Cocurricular activities:			
Admissions	2,345	0	0
Other	1,054	2,500	1,040
Other revenues from local sources:			
Rentals	393	0	0
Other	20,911	0	0
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	14,004	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	441,440	0	0
Restricted grants-in-aid	3,167	0	41,421
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	37,217	0	24,426
Total Revenue	<u>\$831,578</u>	<u>\$94,883</u>	<u>\$124,151</u>

The accompanying notes to financial statements are an integral part of this statement

Total
Governmental
Funds

\$387,874

1,060

26,859

5,315

39,586

2,345

4,594

393

20,911

14,004

441,440

44,588

61,643

\$1,050,612

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$236,632	\$3,269	\$0
High school	192,660	2,101	0
Special Programs:			
Programs for special education	0	0	90,159
Educationally deprived	33,087	0	0
Support Services:			
Pupils-			
Guidance	14,598	0	535
Health service	750	0	0
Psychological	0	0	8,594
Speech	0		18,258
Student therapy	0	0	8,759
Instructional staff-			
Improvement of instruction	3,704	0	0
Educational media	1,863	2,087	0
General administration-			
Board of education	18,800	0	0
Executive administration	32,101	0	0
School administration-			
Office of principal	17,218	0	0
Business-			
Fiscal services	77,361	0	0
Operation and maintenance of plant	64,427	24,779	0
Pupil transportation	89,566	0	0
Other	0	0	332

The accompanying notes to financial statements are an integral part of this statement.

Total
Governmental
Funds

\$239,901

194,761

90,159

33,087

15,133

750

8,594

18,258

8,759

3,704

3,950

18,800

32,101

17,218

77,361

89,206

89,566

332

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Capital Outlay Fund	Special Education Fund
Cocurricular activities:			
Transportation	2,110	0	0
Combined activities	57,939	912	0
Capital outlay	0	5,100	0
	<hr/>	<hr/>	<hr/>
Total Expenditures	842,816	38,248	126,637
	<hr/>	<hr/>	<hr/>
Excess of Revenues over(under)			
Expenditures	(11,238)	56,635	(2,486)
Other Financing Sources (Uses):			
Transfers-out	(14,000)	0	0
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(25,238)	56,635	(2,486)
FUND BALANCE,			
JULY 1, 2007	225,040	177,669	1,935
	<hr/>	<hr/>	<hr/>
FUND BALANCE,			
JUNE 30, 2008	\$199,802	\$234,304	(\$551)
	<hr/>	<hr/>	<hr/>

The accompanying notes to financial statements are an integral part of this statement.

Total
Governmental
Funds

2,110

58,851

5,100

1,007,701

42,911

(14,000)

28,911

404,644

\$433,555

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net Changes in Fund Balances-Total Governmental Funds	\$28,911
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Amounts reported for governmental activities in the statement of activities are different because:

Tax revenue is recorded when it becomes due for the period for which it was levied in the statement of activities, but is deferred in the funds statements until it is collected or is available to be used to offset current expenditures	(1,873)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	<u>(17,930)</u>
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Change in Net Assets of Government Activities	<u><u>\$9,108</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
Revenues:			
Revenues from Local Sources:			
Taxes:			
Ad valorem taxes	\$251,250	\$79,561	\$55,410
Gross receipts taxes	26,704	0	0
Penalties and interest	1,095	325	237
Tuition and Fees:			
Transportation fees	12,150	0	0
Earnings on deposits:			
Interest earned	7,688	3,346	136
Cocurricular activites:			
Admissions	3,983	0	0
Other	799	0	0
Other revenues from local sources:			
Rentals	382	0	0
Contributions	5,000	7,500	0
Other	8	750	250
Revenues from Intermediate Sources:			
County Sources:			
County apportionment	12,520	0	0
Revenues from State Sources:			
Grants-in-aid:			
Unrestricted grants-in-aid	460,108	0	0
Restricted grants-in-aid	0	0	115,095
Revenues from Federal Sources:			
Grants-in-aid:			
Restricted grants-in-aid received from federal government through state	51,984	0	24,850
Total Revenue	<u>\$833,671</u>	<u>\$91,482</u>	<u>\$195,978</u>

The accompanying notes to financial statements are an integral part of this statement

Total
Governmental
Funds

\$386,221

26,704

1,657

12,150

11,170

3,983

799

382

12,500

1,008

12,520

460,108

115,095

76,834

\$1,121,131

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
Expenditures:			
Instruction:			
Regular Programs:			
Elementary	\$239,137	\$14,632	\$0
High school	193,022	11,039	0
Special Programs:			
Programs for special education	0	0	144,145
Educationally deprived	31,556	0	0
Support Services:			
Pupils-			
Guidance	0	0	565
Health service	409	0	0
Psychological	0	0	8,915
Speech	0		17,265
Student therapy	0	0	11,698
Instructional staff-			
Improvement of instruction	314	0	0
Educational media	2,915	953	0
General administration-			
Board of education	8,076	0	510
Executive administration	36,336	0	0
School administration-			
Office of principal	32,741	0	0
Business-			
Fiscal services	65,963	837	0
Operation and maintenance of plant	79,841	8,826	0
Pupil transportation	55,138	0	0

The accompanying notes to financial statements are an integral part of this statement.

Total
Governmental
Funds

\$253,769

204,061

144,145

31,556

565

409

8,915

17,265

11,698

314

3,868

8,586

36,336

32,741

66,800

88,667

55,138

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Outlay Fund	Special Education Fund
Cocurricular activities:			
Transportation	4,342	0	0
Combined activities	50,058	1,979	0
	<hr/>	<hr/>	<hr/>
Total Expenditures	799,848	38,266	183,098
	<hr/>	<hr/>	<hr/>
Excess of Revenues over(under)			
Expenditures	33,823	53,216	12,880
Other Financing Sources (Uses):			
Transfers-in	3,482	0	0
Transfers-out	(7,000)	(3,346)	(136)
	<hr/>	<hr/>	<hr/>
Net change in fund balances	30,305	49,870	12,744
FUND BALANCE,			
JULY 1, 2006	194,735	127,799	(10,809)
	<hr/>	<hr/>	<hr/>
FUND BALANCE,			
JUNE 30, 2007	\$225,040	\$177,669	\$1,935
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes to financial statements are an integral part of this statement.

Total
Governmental
Funds

4,342

52,037

1,021,212

99,919

3,482

(10,482)

92,919

311,725

\$404,644

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Net Changes in Fund Balances-Total Governmental Funds	\$92,919
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Amounts reported for governmental activities in the statement of
activities are different because:

Tax revenue is recorded when it becomes due for the period for which it was levied in the statement of activities, but is deferred in the funds statements until it is collected or is available to be used to offset current expenditures	156
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense in the current period.	<u>(37,750)</u>
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Change in Net Assets of Government Activities	<u><u>\$55,325</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
BALANCE SHEET-PROPRIETARY FUNDS
JUNE 30, 2008

	ENTERPRISE FUNDS
	Food Service Fund
ASSETS:	
Current Assets:	
Accounts receivable	\$2,077
Inventory of stores purchased for resale	648
Inventory of donated food	872
Total Current Assets	<u>3,597</u>
Noncurrent Assets:	
Capital Assets:	
Machinery and equipment	19,984
Accumulated depreciation	(9,981)
Total Noncurrent Assets	<u>10,003</u>
TOTAL ASSETS	<u><u>\$13,600</u></u>
LIABILITIES:	
Current Liabilities:	
Due to General Fund	\$2,706
Contracts payable	2,075
Payroll deductions and withholdings and employer matching payable	159
Total Current Liabilities	<u>4,940</u>
NET ASSETS:	
Invested in capital assets	10,003
Unrestricted net assets	(1,343)
Total Net Assets	<u>8,660</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$13,600</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	ENTERPRISE FUNDS
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$20,141
To adults	3,385
Total Operating Revenue	<u>23,526</u>
Operating Expenses:	
Salaries	24,480
Employee benefits	1,866
Purchased services	893
Supplies	67
Cost of sales-purchased food	24,405
Cost of sales-donated food	2,389
Depreciation	1,160
Total Operating Expenses	<u>55,260</u>
Operating Income (Loss)	<u>(31,734)</u>
Nonoperating Revenue:	
Local Sources:	
Investment earnings	5
State Sources:	
Cash reimbursements	232
Federal Sources:	
Cash reimbursements	12,841
Donated food	2,319
Total Nonoperating Revenue (Expense)	<u>15,397</u>
Income (Loss) before Transfers	(16,337)
Transfers-in	<u>14,000</u>
Change in Net Assets	(2,337)
Net Assets-beginning	<u>10,997</u>
NET ASSETS-ending	<u><u>\$8,660</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	ENTERPRISE FUNDS
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$21,732
Payments to suppliers	(24,803)
Payments to employees	(26,195)
Net Cash Provided (Used) by Operating Activities	(29,266)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	13,073
Transfer from general fund	14,000
Loans from general fund	2,188
Cash Flows from Investing Activities:	
Interest received	5
Net Increase in Cash and Cash Equivalents	\$0
Cash and Cash Equivalents at Beginning of Year	\$0
Cash and Cash Equivalents at End of Year	0
Net Increase in Cash and Cash Equivalents	\$0

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	(\$31,734)
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Adjustments to Reconcile Operating Income to
Net Cash Provided (Used) by Operating Activities:

Depreciation expense	1,160
Commodities used	2,389

Changes in Assets and Liabilities:

Accounts receivable	(1,794)
Inventories	562
Payables	151

Net Cash Provided (Used) by Operating Activities	<u>(\$29,266)</u>
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Noncash Investing, Capital and Financing Activities:

Value of commodities received	<u>\$2,319</u>
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The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS
	Food Service Fund
Operating Revenue:	
Sales:	
To pupils	\$21,702
To adults	2,494
Total Operating Revenue	<u>24,196</u>
Operating Expenses:	
Salaries	19,622
Employee benefits	1,463
Supplies	844
Cost of sales-purchased food	23,035
Cost of sales-donated food	3,078
Depreciation	1,160
Total Operating Expenses	<u>49,202</u>
Operating Income (Loss)	<u>(25,006)</u>
Nonoperating Revenue:	
Local Sources:	
Investment earnings	4
State Sources:	
Cash reimbursements	275
Federal Sources:	
Cash reimbursements	10,860
Donated food	3,189
Total Nonoperating Revenue (Expense)	<u>14,328</u>
Income (Loss) before Transfers	(10,678)
Transfers-in	<u>7,000</u>
Change in Net Assets	(3,678)
Net Assets-beginning	<u>14,675</u>
NET ASSETS-ending	<u><u>\$10,997</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS
	Food Service Fund
Cash Flows from Operating Activities:	
Receipts from customers	\$24,467
Payments to suppliers	(24,098)
Payments to employees	(21,022)
Net Cash Provided (Used) by Operating Activities	(20,653)
Cash Flows from Noncapital Financing Activities:	
Operating subsidies	11,135
Transfer from general fund	7,000
Loans from general fund	518
Cash Flows from Investing Activities:	
Interest received	4
Net Decrease in Cash and Cash Equivalents	(1,996)
Cash and Cash Equivalents at Beginning of Year	\$1,996
Cash at End of Year	0
Net Decrease in Cash and Cash Equivalents	(1,996)

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	(\$25,006)
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Adjustments to Reconcile Operating Income to
Net Cash Provided (Used) by Operating Activities:

Depreciation expense	1,160
Commodities used	3,078

Changes in Assets and Liabilities:

Accounts receivable	271
Inventories	(218)
Payables	<u>62</u>

Net Cash Provided (Used) by Operating Activities	<u><u>(\$20,653)</u></u>
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Noncash Investing, Capital and Financing Activities:

Value of commodities received	<u><u>\$3,189</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$1,988
Investments	<u>\$0</u>
 Total Assets	 <u><u>\$1,988</u></u>
 LIABILITIES:	
Amounts held for others	<u>\$1,988</u>
 NET ASSETS:	
	 <u>0</u>
 Total Liabilities and Net Assets	 <u><u>\$1,988</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	\$306
DEDUCTIONS:	
	<u>(8,398)</u>
Change in Net Assets	(8,092)
Net Assets - Beginning	<u>8,092</u>
NET ASSETS - ENDING	<u><u>\$0</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Private-Purpose Trust Funds</u>
ADDITIONS:	
Contributions and donations	\$295
DEDUCTIONS:	
	<u>0</u>
Change in Net Assets	295
Net Assets - Beginning	<u>7,797</u>
NET ASSETS - ENDING	<u><u>\$8,092</u></u>

The accompanying notes to financial statements are an integral part of this statement.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the school district conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of South Shore School District No. 14-3 consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organization for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The school district participates in two cooperative service units with several other school districts. See detailed note entitled "Joint Ventures" for specific disclosures.

b. Basis of Presentation:

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds, except for fiduciary funds. These statements distinguish between the *governmental and business-type activities*. Governmental activities generally are financed through taxes, intergovernmental resources, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the School District and for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statement:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the District financial reporting entity are described below within their respective fund types:

Governmental Funds:

General Fund - A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the school district, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Outlay Fund - A fund established by SDCL 13-16-6 to meet expenditures which result in the lease of, acquisition of or additions to real property, plant or equipment, textbooks and instructional software. The fund is financed by property taxes. This is a major fund.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Special Education Fund - A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the district. This fund is financed by grants and property taxes. This is a major fund.

Proprietary Funds:

Enterprise Fund Types - enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expense incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Food Service Fund - A fund used to record financial transactions related to food service operations. This fund is financed by user charges and grants. This is a major fund.

Fiduciary Funds:

Fiduciary Funds are never considered to be major funds.

Private-purpose Trust Funds - Private-purpose trust funds are used to account for all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The school district maintains only the following private-purpose trust funds:

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commercial club trust (a separate trust established by donors to provide for awards to exceptional students). This fund was closed in 2008 by returning the cash to the donors.

Agency Fund Types - agency funds are used to account for resources held by the school district in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The District maintains agency funds for the following purposes:

Student clubs and organizations such as "FFA" and "Student Council"

c. Measurement of Focus and Basis of Accounting:

Measurement of focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement of focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and similar fiduciary fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and similar trust funds.

Basis of Accounting:

Government-wide Financial Statements:

All government-wide Statement of Net Assets and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the South Shore School District No. 14-3, the length of that cycle is 60 days. The revenues accrued at June 30, 2008 are reimbursement grants.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. Infrastructure assets are not capitalized along with other capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements:

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

The total June 30, 2008 balance of capital assets for governmental activities includes approximately ten percent for which the costs were determined by estimates of the original costs. The total June 30, 2008 balance of capital assets for business-type activities includes approximately ten percent for which the costs were by estimates of the original cost. These estimated original costs were established by deflated current replacement cost.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	ALL	N/A	N/A
Improvements	25,000	Straight-line	15-50 years
Buildings	50,000	Straight-line	15-50 years
Machinery and Equipment	2,500	Straight-line	4-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate government fund upon acquisition. Capital assets used in proprietary fund operations are accounting for on the accrual basis, the same as in the government-wide statements.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operation and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. No long-term liabilities existed as of June 30, 2008.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, debt proceeds are reported as revenues (other financing resources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Program Revenues:

In the Government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the district's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expense.

i. Cash and Cash Equivalents:

The school district pools its cash resources for depositing and investing purposes. Accordingly, the enterprise fund has access to its cash resources on demand. Accordingly, all reported enterprise fund deposit and investment balances are considered to be cash equivalents for the purpose of Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt, - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

k. Application of Net Assets:

It is the district's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The school district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. These restrictions are summarized below:

Deposits - The school district's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Investments - In general, SDCL 4-5-6 permits School District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the School District, as discussed above. The School District has no investment policy that would further limit its investment choices.

As of June 30, 2008, the School District had no investments.

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name,

The School District's deposits were not exposed to the risks above as of June 30, 2008.

Concentration of Credit Risk - The School District places no limit on the amount that may be invested in any one issuer.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Interest Rate Risk - The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund of the fund making the investment. The School District's policy is to credit all income from deposits and investments to the General Fund except for the interest earned by the lunch or trust and agency funds. Since the funds have their own bank accounts they retain their interest income. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities. These interfund transfers are not a violation of the statutory restrictions on interfund transfers.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The district expects all receivables to be collected within one year. No allowances for estimated uncollectibles have been established.

4. INVENTORY

Food service inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out. Donated commodities are valued at estimated market value based on the USDA price list at date of receipt.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

4. INVENTORY (continued)

In the Government-wide financial statements, inventory items are initially recorded as assets and charged to expense in the various functions of the government as they are consumed.

In the fund financial statements, inventories in the General Fund and Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

6. PROPERTY TAX

Property taxes are levied on or before each October 1 and attach as an enforceable lien on property as of the following January 1, and are payable in two installments on or before the following April 30th and October 31st. The county bills and collects the school district's taxes and remits them to the school district.

School district property tax revenues are recognized to the extent that they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is not intended to be used to finance the current year's appropriations and therefore are not susceptible to accrual has been reported as deferred revenue in both the fund financial statements and the government-

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

6. PROPERTY TAX (continued)

wide financial statements. Additionally, in the fund financial statements, revenue from property taxes may be limited by any amount not collected during the current fiscal period or within the "availability period".

7. CHANGES IN CAPITAL ASSETS

A summary of the changes in capital assets for the two years ended June 30, 2008 is as follows:

	Balance <u>7/01/06</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/08</u>
Government Activities:				
Capital Assets				
not being depreciated				
Land	\$ 2,046	\$ -	\$ -	\$ 2,046
Capital Assets				
being depreciated				
Buildings	425,115	-	-	425,115
Machinery and				
Equipment	<u>534,907</u>	<u>5,100</u>	<u>64,956</u>	<u>475,051</u>
Total	<u>960,022</u>	<u>5,100</u>	<u>64,956</u>	<u>900,166</u>
Less accumulated				
Depreciation:				
Buildings	\$ 58,130	\$ 19,082	\$ -	\$ 77,212
Machinery and				
Equipment	<u>256,102</u>	<u>41,698</u>	<u>64,956</u>	<u>232,844</u>
Total	<u>314,232</u>	<u>60,780</u>	<u>64,956</u>	<u>310,056</u>
Total capital assets				
being depreciated,				
net:	<u>645,790</u>	<u>(55,680)</u>	<u>-</u>	<u>590,110</u>
Governmental activity				
capital assets,				
net:	<u>\$ 647,836</u>	<u>\$ (55,680)</u>	<u>\$ -</u>	<u>\$ 592,156</u>

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

7. CHANGES IN CAPITAL ASSETS (continued)

Business-type activities:

Machinery and Equipment	\$ 19,984	\$ -	\$ -	\$ 19,984
Less accumulated Depreciation	(7,661)	(2,320)	-	(9,981)

Business-type activity

Capital assets, net	\$ 12,323	\$ (2,320)	\$ -	\$ 10,003
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Depreciation expense was changed to functions as follows:

	Fiscal Year 2007	Fiscal Year 2008
Governmental activities:		
Instruction	\$ 18,466	\$ 18,885
Support Services	19,059	3,915
Cocurricular Activities	225	230
	<u>\$ 37,750</u>	<u>\$ 23,030</u>
Business-type activities:		
Food service	<u>\$ 1,160</u>	<u>\$ 1,160</u>

8. INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS

Interfund receivable and payable balances at June 30, 2008 were:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 2,706	\$ -
Food Service Fund	-	2,706

The above loan was made to cover a temporary cash overdraft in the Food Service Fund.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

8. INDIVIDUAL FUND INTERFUND BALANCES AND TRANSACTIONS
(continued):

Interfund transfers during the two years ending June 30, 2008 were as follows:

- a. The interest revenue earned by the Capital Outlay and Special Education Funds were transferred to the General Fund in fiscal 2007.
- b. The General Fund transferred \$8,000 to the Food Service Fund to subsidize its operations in fiscal year 2007 and \$14,000 in fiscal year 2008.

9. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Capital Outlay Fund	Law	<u>234,484</u>
Total Restricted Net Assets:		<u>\$ 234,484</u>

10. RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, and multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after threes of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, S.D. 57501-1098 or by calling (605) 773-3731.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

10. RETIREMENT PLAN (continued):

Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The district's share of contributions to the SDRS for the fiscal years ended June 30, 2008, 2007, and 2006 were \$26,311, \$26,964 and \$26,786 respectively, equal to the required contributions each year.

11. JOINT VENTURES

The school district participates in the Lake Area Multi-District Vocational Center No. 1 for the purpose of providing vocational education to youth. Member Districts jointly and cooperatively exercise any power common to a district board except for the authority to levy taxes and issue bonds. Any nonparticipating district would forego all present equity in equipment and facilities by non-membership.

Assessments are made using a percentage formula based on each district's grade 9-12 enrollment as listed in the latest educational directory. The members of the center and their relative percentage participation in the center are as follows:

Castlewood School District	4.62%
Florence School District	2.00%
Grant-Deuel School District	4.62%
Hamlin School District	11.64%
Henry School District	2.10%
South Shore School District	2.77%
Watertown School District	69.33%
Waverly School District	2.92%
TOTAL	<u>100.00%</u>

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

11. JOINT VENTURES (continued)

The center's governing board is composed of three Watertown School board members and one school board member from each of the remaining member school districts. This governing board is advised by an executive committee that is composed of the Lake Area Multi-District Vocational Center's District and one other superintendent of a member school district that is appointed by the governing board.

The school district has a residual equity interest in the net assets of the center only if the venture is dissolved. A school district withdrawing from the venture would forego all equity in equipment and facilities.

Separate financial statements for Lake Area Multi-District Vocational Center No. 1 are available for review in the business office, located at 1311 3rd Avenue NE, Watertown, South Dakota, 57201.

As of June 30, 2007, this joint venture had total fund equity of \$683,287 and no long-term debt.

The School District also participates in the Northeast Educational Services Coop, a cooperative service unit (coop) formed for the purpose of providing special education services to the member school districts. Assessments are made based on each district's enrollment as listed in the State of South Dakota - Division of Education - educational Director.

The members of the coop and their relative percentage of participation in the coop are as follows:

Arlington School District	4%
Britton-Hecla School District	6%
Castlewood School District	4%
Clark School District	6%
Deuel School District	7%
De Smet School District	4%
Deubrook School District	4%

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

11. JOINT VENTURES (continued)

Elkton School District	4%
Enemy Swim School District	1%
Estelline School District	3%
Florence School District	3%
Grant-Deuel School District	3%
Hamlin School District	8%
Henry School District	2%
Lake Preston School District	3%
Rosholt School District	2%
Sioux Valley School District	7%
Sisseton School District	15%
South Shore School District	1%
Summit School District	2%
Waubay School District	3%
Waverly School District	2%
Willow Lake School District	3%
Wilmot School District	3%
	<hr/>
TOTAL	<u>100%</u>

The coop's governing board is composed of two representatives from each member school district, who are school board members. The board is responsible for adopting the coop's budget and setting service fees at a level adequate to fund the adopted budget.

The school district retains no equity in the net assets of the coop, but does have a responsibility to fund deficits of the coop in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Northeast Educational Services, Box 327, Hayti, South Dakota, 57241.

As of June 30, 2008, this joint venture had total fund equity of \$978,707 and no long-term debt.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

12. RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2008, the school district managed its risks as follows:

Employee Health Insurance:

The school district purchases health insurance for its employees from a commercial carrier. Settled claims from these risks have not exceeded the liability coverage during the past three years.

Liability and Workman's Compensation Insurance:

The school district purchases workman's compensation and liability insurance for risks related to torts' theft of or damage to property; and errors and omission of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The School provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the state of South Dakota. No claims for unemployment were paid during the two years ending June 30, 2008. At June 30, 2008, no claims for unemployment benefits had been filed and none are anticipated in the next fiscal year.

13. DEFICIT FUND BALANCE

As of June 30, 2008, the Special Education Fund had a \$551 deficit fund balance. The School District intends to eliminate this deficit by implementing cost reductions wherever possible.

SOUTH SHORE SCHOOL DISTRICT NO. 14-3
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

14. REORGANIZATION

Effective July 1, 2008, the School District dissolved and became part of Waverly School District.

In accordance with the May 20, 2008 directive of the County of Codington the assets and liabilities of the South Shore School District were entirely transferred to the Waverly School District No. 14-5 as of July 1, 2008. The School building and related equipment will be used as an elementary school for Waverly School District.

SOUTH SHORE SCHOOL DISTRICT No. 14-3
SCHEDULE OF CURRENT AUDIT FINDINGS
JUNE 30, 2008

FINDING NO. 2008-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

RESPONSE OF MANAGEMENT:

The South Shore School District has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties.

SOUTH SHORE SCHOOL DISTRICT No. 14-3
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008

FINDING NUMBER 2004-01 and 2006-01:

A material weakness is present due to a lack of segregation of duties. This weakness was first reported in 1990.

STATUS AS OF JUNE 30, 2008:

The condition noted in prior audits is still applicable.